Australian Council of Social Service

Budget Priorities Statement

2014-2015

Who we are

ACOSS is the peak body of the community services and welfare sector and the national voice for the needs of people affected by poverty and inequality.

Our vision is for a fair, inclusive and sustainable Australia where all individuals and communities can participate in and benefit from social and economic life.

What we do

ACOSS leads and supports initiatives within the community services and welfare sector and acts as an independent non-party political voice.

First published in 2014 by the Australian Council of Social Service

Locked Bag 4777
Strawberry Hills, NSW, 2012 Australia
Email: info@acoss.org.au
Website: www.acoss.org.au

ISSN: 1326-7124
ISBN: 978-0-85871-056-6

Table of contents

Table of Abbreviations

ABS	Australian Bureau of Statistics
ACOSS	Australian Council of Social Service
AHURI	Australian Housing and Urban Research Institute
ATSILS	Aboriginal and Torres Strait Islander Legal Services
CALD	Culturally and Linguistically Diverse
CPI	Consumer Price Index
CRA	Commonwealth Rent Assistance
DSP	Disability Support Pensions
EPF	Employment Pathway Fund
FVPLS	Family Violence Prevention and Legal Services
GDP	Gross Domestic Product
GFC	Global Financial Crisis
JSA	Job Services Australia
NATSEM	National Centre for Social and Economic Modelling
NATSILS	National Aboriginal and Torres Strait Islander Legal Services
NDIS	National Disability Insurance Scheme
NPAH	National Partnership Agreement on Homelessness
NRAS	National Rental Affordability Scheme
OECD	Organisation for Economic Co-operation and Development

1 Overview

1.1 Key messages

ACOSS recognises the very real fiscal challenges that we face as a nation. With declining revenues and an ageing population, now is the right time for a comprehensive review of government revenue and expenditure. We need to set the Budget on a sustainable path for the future. This work needs to be done carefully and in appropriate stages to avoid negative impacts.

The Government's first Budget should seek to reign in wasteful expenditure, ensure government spending is targeted to those who most need assistance and begin a process of reform to create a sustainable, equitable and consistent tax system to meet the needs of an ageing population. This Budget must not be an exercise in finding short-term savings at the risk of creating long term harm.

Wasteful and inefficient expenditure should be curbed to make room for investments to close the worst gaps in our economic and social infrastructure, to strengthen workforce participation and reduce poverty. The Budget should take urgent action to meet the needs of those who are excluded from the benefits of a wealthy society: a job, affordable housing, a decent income, and basic community services such as disability services and dental and mental health care.

This is all the more important at a time when employment growth is stagnating and more people are left to survive for a year or more on benefit payments of $36 a day without access to the training, work experience and job counselling they need to help them secure a job. The base rate and indexation of social security payments including the single rate of Newstart Allowance, Youth Allowance and other Allowances should be raised and the number of wage subsidy places for very long term unemployed people should be doubled. ACOSS is a consistent supporter of sensible policies to boost employment participation among people on income support, which reduce poverty and help overcome gaps in the workforce as the population ages. However, we have consistently opposed policies which simply shift people from higher to lower payments, and those which focus on punishing unemployed people rather than guiding them onto a viable path to employment.

Despite the current debates about increased social security spending, Australia's spending remains comparatively low. The real Budget problems lie elsewhere. Expenditures on social security payments in 2013 were 8.6% of Gross Domestic Product (GDP) compared with an Organisation for Economic Co-operation and Development (OECD) average of 13.0%[1]. Of the $28 billion of growth in social security costs between 2002 and 2012 (after inflation), $13 billion comprised increases in Age Pension expenses (due to a growing population of older people, increases in pension rates and easing of the means test), and $9 billion came from increases in family payment expenses (due to increases in payment rates, easing of income tests, and the introduction of the Baby Bonus and Schoolkids Bonus). Expenditure on Newstart Allowance and Parenting Payment declined by $4 billion over that period, despite a

1 OECD Social expenditure data base. Available at: www.oecd.org

rise (with higher unemployment) during the Global Financial Crisis (GFC).[2] A sharp increase in the number of Newstart Allowance recipients in 2013 was mainly due to the transfer of approximately 80,000 sole parents in that year from the higher Parenting Payment to the lower Newstart Allowance. Despite claims of an inexorable rise in reliance on the Disability Support Pension, the number of recipients peaked in the mid 2000s, at 5% of the working-age population, and has fallen in each of the last two years as eligibility was tightened.

A key priority in this and future budgets is to make room for future expenditures on essential health and aged care services for our growing population of older people. Rather than rationing these services more severely or relying even more on user charges, the Government should raise the revenues necessary to fund quality accessible services through a fair tax system and savings in wasteful expenditure programs. Some of the most inequitable and wasteful programs and tax breaks particularly benefit relatively well-off older people, including the present tax breaks for superannuation, the extension of Seniors Tax Offsets and a Seniors Supplement to older people who are too wealthy to qualify for a pension, and the extension of pensions to couples with investment assets (other than their home) worth up to a million dollars. As a result of these and other special tax breaks, less than 20% of individuals over the age of 64 pay any income tax, despite rising incomes from employment, investments and superannuation. This is not sustainable. We need a national conversation about how to equitably and sustainably pay for essential services for an ageing population and action in this Budget to curb poorly targeted tax breaks and expenditures.

This Budget should also begin a wider process of tax reform to achieve a more sustainable revenue base. While we have heard much commentary about increasing government spending, the structural deficit in the Budget is mainly caused by a decline in Federal revenues. Compared with their average levels over the decade prior to the GFC in 2008, revenues have fallen by 3% of GDP (equivalent to $40 billion in today's dollars) while expenditures rose by 2% of GDP ($27 billion). Due to the legacy of eight successive personal tax cuts coupled with the recent decline in company income tax and Capital Gains Tax revenues, three-fifths of the Budget deterioration since the GFC occurred on the revenue side. Tax expenditures such as tax breaks for superannuation and housing, are a growing proportion of the federal budget, yet these are subjected to much less scrutiny than direct expenditures. The Treasury reported last year that in 2013-14 tax expenditures were projected to total $120 billion, or 7.6% of GDP.[3] This compares to direct expenditures of $402 billion in the same year. They have risen well in excess of economic growth in the last decade, from 4.1% of GDP in 2001-02, to 7.6% in 2013-14.[4]

Inconsistencies in the effective tax rates applied to different forms of investment income and labour earnings distort economic decision-making and are harmful to Australia's economic development. For example, housing tax concessions, and in particular negative gearing, encourage investment in existing rental properties for the purposes of capital gain and have contributed to excessive household debt levels and house price inflation.

Over the next decade, these budgetary pressures will only intensify. The slowing of the mining boom has exposed weaknesses in other parts of the economy, such as manufacturing, retail

2 Daly 2013, *Budget pressures on Australian Governments*, Grattan Institute.

3 Treasury (2013) *Mid-Year Economic and Fiscal Outlook 2013-14*, Commonwealth of Australia.

4 Treasury *Tax Expenditure Statements*, Commonwealth of Australia.

and housing. Slowing mining investment and construction activity, and the absence so far of strong growth in other sectors such as housing to pick up the slack, are beginning to slow the overall economy, leading both to lower Government revenue and a weak jobs market.

The current state of the economy makes the policy objectives ACOSS has identified for this Budget even more important:

+ Undertaking effective tax reform to achieve a sustainable revenue base for an ageing population and roll back unfair tax breaks for people on higher incomes;
+ Ensuring that those who are already disadvantaged in the labour market do not also suffer poverty because of the low rate of Allowances; and have access to jobs;
+ Improving housing affordability and improving the life chances and health outcomes for low income families and individuals; and
+ Ensuring essential community services, particularly those which assist the most vulnerable members of our community, are not targeted in an effort to achieve Budget sustainability, including Aboriginal and Torres Strait Islander services and representative organisations and multicultural services; and strengthening the capacity of the community sector to deliver vital community services.

The community sector has an essential role to play in national social and economic policy debates, including Federal budget policy. The Government should actively involve civil society and community organisations in social, economic and environmental decision-making processes, before making decisions which are likely to impact on low income or disadvantaged people or the services that they rely on. We also urge the Government to establish an effective mechanism for community, business and labour organisations to engage in a structured dialogue and seek to develop solutions to the major social and economic policy challenges we face as a nation.

1.2 Overview of recommendations

We propose that modest additional expenditures of the order of $3,440 million in 2014-15 ($5,500 million in the following year) in key priority areas be funded by savings measures, worth an estimated $4,400 million ($10, 300 million in 2015-16).

This Budget strategy would lay the foundations for more sustainable Budget spending, a future return to surplus and a fairer and more efficient tax system in future years; while closing major gaps in the social safety net, alleviating poverty and supporting employment participation. The deficit would be steadily and responsibly reduced by almost $1 billion in 2014-15 and over $5 billion (0.3% of GDP) in the following year. Importantly, the expenditure savings and reductions in poorly targeted tax breaks would accumulate over time, making room for necessary future expenditures in such areas as health, aged care and disability services as the population ages.

Proposed new expenditures, which altogether would cost an estimated $3,540 million ($4,940 million in 2015-16), include the following:

+ Raise the level of payments for Newstart Allowance, Youth Allowance and other Allowance payments for single adults and young people living independently of their parents by $50 per week as recommended by the Henry Report ($400 million) ($1,800 million in 2015-2016).

+ Index all Allowance payments to wage movements ($300 million) ($600 million in 2015-16).

+ Improve the targeting of the family payments system and raise payments for families at greatest risk of poverty ($300 million) ($350 million in 2015-2016).

+ Double the number of wage subsidies available for very long term unemployed people to 20,000 places per year ($30 million) ($30 million in 2015-16).

+ Substantially boost the resources available to Job Services Australia (JSA) providers to work intensively with this group from present inadequate levels (which fund an interview every two months plus $100 a month for training and work experience) ($200 million) ($300 million in 2015-16).

+ Establish an Affordable Housing Growth Fund to expand the stock of affordable housing, with a down-payment of $750 million in the first year and increased and sustained long term ongoing funding ($750 million) ($900 million in 2015-16).

+ Maintain current funding for homelessness services beyond expiry of the National Partnership Agreement on Homelessness and index to Consumer Price Index (CPI) ($160 million) ($170 million in 2015-16).

+ Increase the maximum rate of Commonwealth Rent Assistance (CRA) by 30% (around $19 per week) to assist people on low incomes to meet rising rental costs ($880 million) ($920 million in 2015-16).

+ Maintain critical support for services assisting the most vulnerable members of the community, including legal services ($6.5 million), Aboriginal and Torres Strait Islander representative organisations and multicultural services ($17 million).

+ Invest in the capacity of the community sector to deliver services and engage in national industry initiatives by: properly indexing community service contracts to a standard index to improve the contracting environment for government-funded services ($350 million) ($360 million in 2015-16); funding an Industry Plan for the community sector ($20 million) ($30 million in 2015-16); and establishing a Community Sector Adaptation Fund to support climate change adaptation and extreme weather preparedness projects undertaken by community sector organisations ($10 million) ($10 million in 2015-16).

+ Introduce a universal minimum level of Child Care Benefit and increase the maximum rate of Child Care Benefit to better reflect child care needs, reasonable costs and capacity to pay. This revenue-neutral reform should be funded by savings from removing the poorly targeted Child Care Rebate, (in line with the Henry Report).[5] This would increase subsidies for low and middle income families facing the highest costs and reduce unfairness and complexity in the child care system (cost neutral).

5 Henry, Ken (2009): *Australia's Future Tax System: Report to the Treasurer* Canberra, Australia http://www.taxreview.treasury.gov.au/content/Content.aspx?doc=html/pubs_reports.htm.

Much still remains to be done to remove a number of poorly targeted direct spending and tax expenditures introduced over the past decade. The following expenditure savings and revenue measures are designed to achieve greater equity, efficiency and simplicity in the tax system. Altogether they would raise $4,400 million ($10, 300 million in 2015-16):

+ Quarantine deductions for expenses relating to passive investments in housing, shares, and collectables purchased after 1 January 2015 to offset income received from those assets, including capital gains realised on their sale ($500 million) ($1,000 million in 2015-16).
+ Remove the 30% Private Health Insurance Rebate for ancillary cover ($1,000 million in 2015-16).
+ Reform the tax treatment of private trusts to stem their use to avoid personal income tax obligations ($1,000 million in 2015-16).
+ Restore the $25,000 annual cap on concessional superannuation contributions (saving $500 million in 2014-15); curb tax avoidance through the 'churning' of wages through superannuation (saving $500 million in 2015-16); and progressively extend the 15% tax rate on superannuation fund earnings to accounts in the 'pension phase' (saving $300 million in 2015-16). In the medium term, the present unfair and complex system of tax breaks for superannuation contributions should be replaced by a simple two-tier annual rebate set at 20% of contributions from all sources, up to a modest cap, similar to the superannuation reform proposals in the Henry Report.
+ Remove special Capital Gains Tax concessions for small business assets ($1,100 million in 2015-16).
+ Intensively review tax expenditure each year by the Treasury and Expenditure Review Committee and remove poorly targeted tax deductions and offsets such as the tax offset for Senior Australians who do not qualify for a pension, the Health Insurance Rebate for ancillary benefits, and 'grandfathered' tax concessions for some termination payments ($900 million in 2015-16).

1.3 Summary of recommendations

	Cost	Savings
Expenditure measures		
Improve employment assitance for long term unemployed people	$200 million in 2014-15 ($300 million in 2015-16)	
Expand the wage subsidy scheme for people who are long term unemployed	$30 million ($30 million in 2015-16)	
Increase Allowance payments for single people by $50 per week	$400 million ($1,800 million in 2015-16)	
Index Allowance payments annually to movements in earnings	$300 million ($600 million in 2015-16)	
Improve the targeting of the family payments system and raise payments for families at greatest risk of poverty	$300 million ($350 million in 2015-16)	
Introduce a universal minimum rate and in-crease the maximum rate of the Child Care Benefit, to replace the Child Care Rebate	Revenue neutral	
Reverse plans to cut existing programs which promote access to justice and social inclusion (including but not limited to funding for legal services and multicultural programs)	$20 million ($40 million in 2015-16)	
Maintain funding for the National Congress of Australia's First Peoples	$0 ($5 million p.a. allocated to 2016-17)	
Implement an industry development plan to maintain and develop community services sector	$20 million ($30 million in 2015-16)	
Establish a Community Sector Climate Adaptation Fund	$10 million ($10 million in 2015-16)	
Ensure that community services funding includes adequate price inflation	$350 million ($360 million in 2015-16)	
Maintain national regulatory environment for charities and non-profit organisations	$0 (funds committed in forward estimates)	
Establish a long-term Affordable Housing Growth Fund	$750 million ($900 million in 2015-16)	
Increase the maximum rate of CRA	$880 million ($920 million in 2015-16)	
Continue current funding levels for homelessness services beyond expiry of the National Partnership Agreement on Homelessness and index to CPI	$160 million ($170 million in 2015-16)	
Improve adequacy of indexation of funds under the National Affordable Housing Agreement	$20 million ($30 million in 2015-16)	

	Cost	Savings
Tax and savings measures		
(a) Tax measures		
Intensively review tax expenditures every year and reduce or remove specific poorly targeted tax expenditures such as the tax off-set for Seniors not entitled to a pension		($900 million in 2015-16)
Curb the use of private trusts to avoid personal income tax		($1,000 million in 2015-16)
Remove special Capital Gains Tax concessions for small business assets		($1,100 million in 2015-16)
Restore the $25,000 annual cap on concessionally taxed superannuation contributions from July 2014		$500 million ($800 million in 2015-16)
Extend the 15% tax rate on superannuation fund earnings to accounts in the 'pension phase', in three annual steps (an increase of 5% in each year from 2015-16)		($300 million in 2015-16)
Curb the avoidance of personal income tax though 'churning' of wages through superannuation funds and payment of an equivalent superannuation pension		($500 million in 2015-16)
Quarantine deductions for expenses relating to passive investments in housing, shares and collectables		$500 million ($1,000 million in 2015-16)
(b) Expenditure saving measures		
Tighten the social security assets test so that couples with over a million dollars in assets (other than their homes) no longer receive a pension		$1,300 million ($1,400 million in 2015-16)
Restrict seniors supplements to individuals entitled to receive a pension		$ 250 million ($300 million in 2015-16)
Abolish the Extended Medicare Safety Net, and increase Medicare schedule fees where 'gap fees' are excessive		$550 million ($ 600 million in 2015-16)
Remove the 30% private Health Insurance Rebate for ancillary ('extras') cover		($1,000 million in 2015-16)
Reduce Pharmaceutical Benefits Scheme (PBS) subsidies for medicines out of patent		$ 1,300 million ($ 1,300 million in 2015-16)
TOTAL COST	$3,440 million ($5,550 million in 2016-16)	
TOTAL SAVINGS	-$4,400 million (-$10,200 million in 2015-16)	
NET TOTAL (savings)	-$960 million (-$4,750 million in 2015-16)	

2 Securing the revenue we need to meet the community's needs

Australia is a low taxing and low spending country, with one of the most tightly targeted social security systems in the OECD. Rather than redistribute resources through much larger transfer schemes such as those in most European countries, the Australian tax-transfer system relies on a combination of targeted income support and progressive income taxes.

However, a range of unfair and inefficient tax breaks, as well as loopholes that are used by well-advised taxpayers, reduces the progressivity of the income tax system, with the effect that higher tax rates are needed than would otherwise be the case to raise the same amount of revenue. This means that the burden of federal budget restraint is not being borne equitably. At the same time, inconsistencies in the effective tax rates applied to different forms of investment income and labour earnings distort economic decision-making and are harmful to Australia's economic development. For example, the 50% discount on tax rates for capital gains received by individuals and trusts encourages excessive speculative investment in property and other assets yielding capital gains. This diverts investment from other purposes as well as fuelling boom and bust cycles in the economy. The concessional tax treatment of capital gains also overwhelmingly benefits high income earners who hold the lion's share of investment assets attracting Capital Gains Tax.

A further example of tax breaks that have inefficient economic outcomes can be found in housing tax concessions, and in particular negative gearing, which encourages excessive borrowing to invest in existing rental properties with a view to making capital gains on the sale of the property rather than rental returns. This contributes to house price inflation and excessive levels of household debt during investment booms.

Negative gearing is addressed in Chapter 5 (Housing). Our proposal is to quarantine deductions for expenses relating to passive investment in housing, shares, collectables and similar assets purchased after 1 January 2015 to offset income received from those assets, including capital gains realised on their subsequent sale. Half the revenue savings would be earmarked for the proposed expansion of housing investment through the Affordable Housing Growth Fund and future expansion of the National Rental Affordability Scheme (NRAS).

The current set of retirement and age-based tax concessions are both unfair and inefficient. As the population ages, governments will face increasing and legitimate demands on health and aged care services, yet less than 20% of individuals over the age of 64 pay any income tax, despite increases in the incomes of this age cohort from employment, investments and superannuation. This is not sustainable. We need a national conversation about how to equitably and sustainably meet the health, aged care and other needs of an ageing population without imposing unaffordable user charges.

Superannuation tax breaks are the largest component of tax expenditures, totalling a projected $37 billion in 2013-14, broadly equivalent to the cost of the Age Pension.[6] Far from alleviating Budget pressures as the population ages, current superannuation tax expenditure settings are contributing to our Budget problems. Some 30% of the value of superannuation tax breaks goes to the top 10% of income earners and only 20% are received by the bottom 50% of income

6 Treasury (2013) *Tax Expenditures Statement*, Commonwealth of Australia.

earners.[7] Men in the top 10% of the wage distribution receive more from government in superannuation tax exemptions than they would if they received the full Age Pension.[8] For a system that was at least partly intended to relieve government reliance on public funding as the population ages, this is a poor public policy outcome.

Recommendations to start the process of improving the equity and sustainability of retirement income subsidies are contained in in Chapter 3. These include restoring the $25,000 annual cap on concessionally-taxed superannuation contributions, curbing income tax avoidance through the 'churning' of wages through superannuation accounts that pay an equivalent pension, and progressively extending the 15% tax on superannuation fund earnings to accounts in the 'pensions phase.'

To reduce the distortion of investment decision by the 50% tax discount for capital gains, the Henry Report recommended a common 40% tax discount for most major forms of investment income. This would increase tax rates on capital gains and reduce those applying to other investment incomes. This proposal has merit but is best introduced as part of a wider reform of the tax system. A sensible place to begin reform of the tax treatment of capital gains in this Budget is to reduce the additional concessions that apply to capital gains realised on the sale of certain small business assets. The current 50% tax discount is doubled in these cases, and there are exemptions for capital gains held for over 15 years and those used for 'retirement purposes.' Together, these concessions mean that many small business owners can avoid paying Capital Gains Tax altogether, an outcome that is inequitable and difficult to justify.

The original intent of the policy was to enable small business owners to use the sale of their business assets to fund their retirement. However this is a risky approach to retirement saving and these special tax breaks encourage over-investment in business assets as against other strategies to improve business profitability and to save for retirement. Small business owners should be encouraged to save for their retirement through superannuation rather than by avoiding tax on capital gains.

More broadly, if the Government subjected tax expenditures to the same rigorous Budget scrutiny as direct expenditures, it could save billions of dollars every year. Federal Treasury projected last year that in 2013-14 tax expenditures would reach a total of $120 billion, or 7.6% of GDP.[9] This compares to direct expenditures of $402 billion in the same year. Tax expenditures are therefore a significant component of the Budget but attract much less scrutiny in the Budget process than direct expenditures. They have risen well in excess of economic growth in the last decade, from 4.1% of GDP in 2001-02, to 7.6% in 2013-14.[10]

Revenue savings from the handful of major tax expenditures could save at least as much as is achieved through regular reviews of a much larger number of smaller direct expenditures, and Budget discipline can be undermined by new tax breaks and the extension of existing ones. For these reasons, the OECD has suggested that tax expenditures that are comparable with direct expenditures should be included within any public expenditure 'ceilings',[11] and the following guidelines were developed under its auspices:

7 Treasury (2013) *Highlights of Treasury paper presented to Superannuation Roundtable in April 2012*, Commonwealth of Australia .

8 *Ibid.*

9 Treasury (2013) *Mid-Year Economic and Fiscal Outlook 2013-14*, Commonwealth of Australia.

10 Treasury, *Tax Expenditure Statements.*

11 OECD (2004) *Best practice guidelines, off budget and tax expenditures.* GOV/PGC/SBO(2004)6 at 4.

+ 'Under nominal or structural deficit or operating/current balance rules tax expenditures should either be included in the total expenditure cap that is set every year during Budget preparation or in a special tax expenditure cap.'
+ 'All tax expenditures should be reviewed in the same way as regular expenditures in the annual Budget process. They should be reviewed by the financial staff of spending ministers and the Budget bureau in the same way as regular expenditures.'[12]

While the above tax expenditures are an intentional part of the taxation system, there are a number of tax shelters that undermine the intent of tax policy. For example, relatively wealthy individuals can avoid personal income tax by diverting and 'sheltering' their income or income producing assets in structures such as discretionary trusts and private companies, or combinations of the two. Private discretionary trusts can be used to avoid income tax by splitting income with a family member, delaying or avoiding payment of Capital Gains Tax, and by passing on the benefits of investment tax breaks from the trust to its beneficiaries. Although the intention of the current tax policy is that any income that is not taxed in the hands of beneficiaries is instead taxed in the hands of the trust, this is not consistently applied. The income paid from private discretionary trusts rose from $22 billion in 2000 to $437 billion in 2008, a 70% increase in 8 years.[13] To improve the fairness and efficiency of the income tax system and protect the personal income tax base from revenue erosion, ACOSS proposes that the tax treatment of private discretionary trusts be tightened to curb these tax avoidance opportunities.

An unintended consequence of changes to the tax treatment of superannuation over the last decade is that high income earners over 55 years of age can use superannuation tax concessions to 'churn' their wages though superannuation accounts – reducing their effective tax rate to 15% - without actually increasing their retirement savings. This is achieved by sacrificing salary for employer superannuation contributions (up to the concessional contributions cap of $25,000 to $35,000), and then asking the fund to pay them an equivalent pension. This has no effect on their before-tax income or retirement savings, but it artificially reduces their tax. This unintended tax break is not available to taxpayers under 55 years of age, and it will erode the revenue available to governments to finance health and aged care for the growing number of retirees who need them. The use of this strategy to avoid personal income should be curbed by reducing the annual cap for concessional contributions for every dollar of superannuation benefits paid during the same tax year (see Chapter 2).

A full list of recommendations to raise revenue, including those relating to housing and retirement incomes, is included in the Executive Summary, above.

Recommendation 1: Certain Capital Gains Tax concessions for small business assets should be removed.

The following tax concessions for capital gains from the disposal of small business assets should be abolished from 1 July 2015:

+ The additional 50% discount for these capital gains;

12 Ibid at p13.

13 Australian Taxation Office, *Taxation Statistics*,Commonwealth of Australia.

+ The exemption for gains on assets held for over 15 years; and
+ The exemption for gains used for retirement purposes.

Revenue: $0 ($1,100 million 2015-16)

Recommendation 2: Tax expenditures should be intensively reviewed each year by the Treasury and Expenditure Review Committee and poorly targeted tax expenditures should be reduced or abolished:

1. From 1 July 2015 the following tax concessions should be removed or tightened:
   + The Senior Australians and Pensioners Tax Offset (SAPTO) should be restricted to individuals entitled to a social security pension, and redesigned to exclude income within the pension free area from tax;
   + The Private Health Insurance Rebate should be removed from ancillary medical expenses[14]; and
   + 'Grandfathering' arrangements for previous tax concessions for non-superannuation termination payments and unused leave (apart from bone-fide redundancy payments) should be removed.
2. The Government should identify those tax expenditures that have a similar character to direct expenditures, attribute them to the relevant expenditure Departments, and include them in an annual Expenditure Review process through a process of 'envelope budgeting.'

Revenue: $0 ($900 million in 2015-16)

Recommendation 3: The use of private trusts to avoid personal income tax should be curbed:

From 1 July 2015, tax-preferred income of private discretionary trusts should be taxed as capital gains in the hands of beneficiaries and stronger rules should be introduced to prevent the avoidance of tax on income (including capital gains) that is not distributed to beneficiaries each year.

Revenue: $0 ($1,000 million in 2015-16)

14 The savings in direct expenses arising from this measure are costed in Chapter 4.

3 Improve employment opportunities and incomes for people at risk of poverty

3.1 Employment services

At 5.8% in December 2013, unemployment is at a 4 year high, with the loss of some 250,000 jobs since the beginning of the GFC. While Australia's unemployment rate is still low by OECD standards, the majority of those receiving the unemployment payment are unemployed long term (over 12 months), and the weak labour market will compound the difficulties faced by this group. In 2011, 10% of JSA clients were Indigenous, 45% lacked Year 12 qualifications, 15% had an assessed disability, 15% were over 50 years old, and over 15% were from Culturally and Linguistically Diverse (CALD) backgrounds – all groups with below average employment prospects.

The most cost effective way to assist people who are disadvantaged in the labour market is for local employment service providers to establish a close working relationship both with them and their prospective employers, help them search for a job, and offer individually tailored assistance to overcome hurdles along the way, especially relevant work experience and training. Financing employment assistance of this kind is a key obligation of Government in the system of mutual obligation for jobseekers. In return, jobseekers are expected to actively seek employment and participate in programs that put them on a path to a job. Such labour market assistance for disadvantaged jobseekers is also cost effective for Government because it has a proven impact in reducing future reliance on social security, as well as the other social and fiscal costs of prolonged unemployment.

In theory, within the JSA system service payments enable providers to interview and engage with jobseekers regularly, and the Employment Pathway Fund (EPF) finances flexible investment in work experience and training. However, the ability for JSA providers to offer this kind of intensive support is very limited in the case of 50% or so of their clients who are long term unemployed. After 12 months of unemployment, most people are offered a lower level of assistance because the 'Work Experience phase' is seriously under-resourced, as confirmed in a 2012 OECD report on Activation in Australia.[15] Each unemployed person entering Work Experience attracts just $500 in the EPF to purchase six months of work experience or training, together with service fees sufficient to interview them once every two months (up to $700 per year).

This is counterproductive as the evidence suggests the impact of intensive employment assistance is greater for people unemployed long term. We propose that fees for the 'Work Experience phase' be approximately doubled, to the same level that applies to Stream 3 jobseekers in their first year of unemployment, making provider resourcing equivalent to resourcing for those most 'at risk' of long term unemployment. In this way, assistance would be targeted to the most disadvantaged without providing incentives to providers to delay assistance until later in the unemployment spell.

While funding for JSA has not increased in real terms for many years, some services for unemployed social security recipients (and elements of the JSA system itself) are not cost

15 OECD (2012) *Activating jobseekers, how Australia does it* Paris, France.

effective. There is scope to reallocate resources towards investment in those elements (such as the EPF for long term unemployed people) that would make a real difference to people's job prospects.

Between 2011 and 2013, $3 million was spent on the relocation assistance scheme 'Connecting People with Jobs', assisting just 1,235 unemployed people move to another area to start a job.[16] A more lasting and effective response to the geographic mismatch between jobseekers and employment opportunities would be to improve housing affordability in stronger labour markets and public transport in outer urban areas and regional towns. Similarly, in 2012 approximately $1 billion is projected to be spent over the forward estimates on compulsory Income Management for various social security recipients. The average cost for administering the largest scheme in the Northern Territory is $6,000 to $8,000 per person, which is more than half the cost of the Allowance payments received by those affected. In the Northern Territory, Income Management is applied compulsorily to almost 15,000 people (mainly from Indigenous communities) regardless of whether those affected have a problem with money management. The first official evaluation of this scheme found little evidence of positive economic or social impacts. Only approximately 500 individuals are participating in the 'placed based Income Management' scheme that was rolled out more recently in five regions across Australia.[17]

Within the JSA system, too many resources are devoted to the administration of overly-prescriptive requirements for providers and jobseekers, leaving less room to invest in flexible employment assistance. One example of this is the extension of the EPF (which unlike service fees must be acquitted in detail by providers) to less disadvantaged jobseekers (those in Streams One and Two in the first year of unemployment), who have less need of substantial investment in work experience or training. Further, people who are unemployed for 24 months are required to participate in 11 months of compulsory activity such as 'full time Work for the Dole' for which providers receive just $1,000 worth of credits in the EPF (an average of less than $100 per month). The kinds of programs that can be bought with this level of funding are 'activity for activity's sake', and this promotes an over-emphasis on benefit compliance over positive engagement and effective employment assistance. Moreover, requiring all jobseekers in a given category (such as those unemployed for 2 years) to participate in a single standardised program is inefficient. The current funding level through the EPF should be retained but the activity requirement reduced to 6 months and made more flexible to engage people in more intensive activities that improve their individual job prospects.

The Wage Connect wage subsidy scheme has achieved promising results, with 47% of the 8084 participants who completed the program's 26 week job placement by May 2013 retaining their positions after the subsidy ended. The scheme, which provides a subsidy roughly equal to Newstart Allowance to employers to offer paid work experience to very long term unemployed people, gives people valuable experience in a 'real job' and the employer an opportunity to test their ability on the job. By contrast, in 2012 only 22% of participants in the unpaid 'Work for the Dole' scheme were employed three months later[18].

In each of the last two years, the Wage Connect scheme has been paused part way through the year when the cap of 10,000 places annually was reached. This indicates strong employer

16 Senate Education Employment and Workplace Relations Committee (2013) *Transcript of Estimates Hearings, 4 June 2013.*

17 Australian National Audit Office (2013) *Administration of New Income Management in the Northern Territory*; FAHCSIA (2013) *Income Management Summary, 17 May 2013.*

18 DEEWR (2013) *Labour market assistance outcomes, June 2012.*

interest in the scheme. Given its favourable results and its over-subscription by employers, it should be scaled up to 20,000 places per year. It is already appropriately targeted to assist people unemployed for more than two years.

Recommendation 4: Improve employment assistance for long term unemployed people

1. The resources available to JSA providers to assist long term unemployed people in the Work Experience phase should be bolstered by replacing the current fees paid to providers in that phase with those paid for Stream 3 jobseekers in their first year of unemployment (currently up to $1,100 in annual service fees and $1,100 in annual EPF credits).

2. The period of compulsory work related activity for people in their third year of unemployment should be reduced from 11 to six months, without reducing the additional funding for this via the EPF, to allow for more intensive activities that improve their job prospects.

Cost: $200 million 2014-2015, $300 million in 2015-16)

Recommendation 5: Expand the wage subsidy scheme for people who are long term unemployed

The number of wage subsidies available from the Wage Connect scheme for very long term unemployed people should be doubled in 2013-14 to 20,000 places per year.

Cost $30 million in 2014-15 ($30 million in 2015-16)

3.2 Working-age payments

The social security system provides an essential safety net for people who are unable to earn sufficient income to meet their basic living costs. Australia's social security system is more cost effective in reducing poverty than those in almost every other OECD country. Expenditures on social security payments in 2013 were 8.6% of GDP compared with an OECD average of 13.0%.[19] In 2010, 40% of social security expenses comprised Age Pensions, 21% comprised family payments, and 30% comprised working-age payments such as Newstart Allowance, Disability Pensions and Parenting Payment.[20] Of the $28 billion of growth in social security costs between 2002 and 2012 after inflation, $13 billion comprised increases in Age Pension expenses (due mainly to growth in the population of older people, an increase in the pension, and an easing of the means test) and $9 billion came from increases in family payment expenses (due mainly to increases in rates of payment, easing of income tests, and the introduction of the Baby Bonus and Schoolkids Bonus). Expenditure on Newstart Allowance and Parenting Payment declined by $4 billion over that period, despite a rise (with higher unemployment) during the GFC.[21] A sharp increase in the number of Newstart Allowance recipients in 2013 was mainly due to the transfer of approximately 80,000 sole parents in that

19 OECD Social expenditure data base.

20 Treasury, *Budget Papers* Commonwealth of Australia.

21 Daly (2013) *Budget pressures on Australian Governments* Grattan Institute.

year from the higher Parenting Payment to the lower Newstart Allowance, a decision that reduced payments for the poorest single parent families by over $60 per week.[22]

There has been a long term decline in reliance on working-age payments. Over the 20 years to 2011, the proportion of the working-age population receiving income support fell from 19% to 17%. The greatest reduction was in recipients of unemployment payments (from 6% to 4). The rise in reliance on Disability Support Pensions (DSP) abated in the mid 2000s. Reliance on that payment rose from 3% of the working-age population in 1991 to 5% in 2004 (reflecting the closure of other payment options for people of mature age and changes in the labour market that reduced opportunities for people with disabilities), and then flattened out (at 5%) from the mid 2000s to the end of that decade. Although reliance on the DSP rose after the GFC, the absolute number of recipients fell in each of the last two years as policies restricting access to the pension were implemented by the previous Government.

Unemployment payments (Newstart and Youth Allowances) were originally designed to tide people over a short period of unemployment. However, as unemployment has fallen over the last two decades, the profile of those remaining on benefits has become more disadvantaged. Among JSA clients in March 2013, around half were unemployed long term (over one year), and most of this group were unemployed for over 2 years.

The maximum single rate of Newstart Allowance in January 2014 was just $251 per week, or $36 a day. The payment for unemployed young people living independently of their parents is $207 per week. As the recent Senate Inquiry into the Adequacy of Allowance payments confirmed, this is not enough to meet the most basic essential costs such as housing, food, clothing and importantly, job search costs. Our 'Poverty in Australia' report indicates that the risk of poverty among people in households where the main earner receives Newstart Allowance was 52% in 2010 and the equivalent statistic for Youth Allowance recipients was 68%.[23] In 2010, 57% of Parenting Payment recipients and 28% of Newstart Allowance recipients could not afford to pay utility bills on time compared with 12% of all households. Over 40% of both groups could not afford dental treatment when needed.[24]

The real value of Allowance payments has not increased since the early 1990s, and they were excluded from the $32 per week in pensions announced in 2009. As a result, the single rate of Newstart Allowance (and related supplements) is $159 per week less than the pension and Youth Allowance is $203 less. Aside from the inequity of different levels of payment for people with similar living costs, this gap between pension and Allowance payments discourages many people on pensions such as the DSP from seeking employment, in case they lose the pension and wind up on the lower payments. The $60 per week gap between pension and Allowance payments for single parents means that many of our poorest families experience a sharp decline in their income once their youngest child turns 8 years and the parent is transferred to Newstart Allowance, despite the fact that the costs of raising a child increase with age.

The previous Government legislated a small increase in Allowance payments in the form of an Allowance Bonus, worth the equivalent of $4 a week. This would be the first real increase in these payments for 20 years. It was to commence in 2014 but the present Government has indicated its intention to abolish this payment on the grounds that it was 'financed' by the

22 ACOSS (2012) *Submission to the Senate Education Employment and Workplace Relations Committee regarding the Social Security amendment (Fair incentives to work) Bill (2012),* ACOSS Paper 190.

23 ACOSS (2012) *Poverty in Australia.*

24 ACOSS (2008) *Missing out, hardship in Australia*, ACOSS Info Paper – see www.acoss.org.au.

Minerals Resource Rent Tax which the Government proposes to abolish. In our view, the Allowance Bonus should be assessed on its own merits rather than its method of 'financing' (which in any event is from general Budget revenue and not one particular tax). An increase in fortnightly Allowance payments, at least for single people and sole parents, should have a very high priority in this Budget.

The payment gap between pensions and Allowances increases every year due to more stringent indexation arrangements for Allowance payments. Pensions are indexed to wage movements while Allowances are only indexed to the CPI. Since the large pension increase in 2009, the gap between these payments for single people has grown by an average of $10 per week per year. This disparity is exacerbated by the Household Assistance Scheme announced by the previous Government to compensate households for the additional costs associated with the carbon price. This includes a further round of increases in social security payments to top up the Clean Energy Supplements, which are being retained and increased although the present Government proposes to abolish the carbon pricing scheme. As ACOSS pointed out when the Household Assistance Scheme was first developed, an across-the-board percentage increase in social security payments increases the gap between pension and Allowance payments. For example, the Clean Energy Supplement for a single Allowance recipient without children is $8.50 per week while a single pensioner without children receives $13.70 per week. If the rationale to maintain the Household Assistance Scheme increases despite removal of the carbon price is to assist with general living costs, then the evidence clearly indicates that those on the lower Allowance payments, who missed out on the $32 a week real increase in pensions in 2009, are in greater need of help.

The Henry Report of the tax-transfer system recommended that the single rate of Allowance payments be benchmarked to two-thirds of the partnered rate, as was implemented for single pensioners in 2009. This would currently require a $50 per week rise in the single rate of Newstart Allowance,[25] which should also extend to other Allowances such as Austudy and Abstudy payments and the Youth Allowance for those aged over 17 years living away from their parents. Payments for sole parents on Newstart Allowance should also increase accordingly. As the Henry Report noted, there is room to increase these payments without significantly weakening work incentives. A single adult on Newstart Allowance who obtains a fulltime job at the minimum wage would more than double their disposable income. This payment increase would have a substantial and immediate effect on reducing poverty, including among sole parent families affected by last year's payment cuts (which would be fully restored for the poorest of those families by a combination of the Newstart Allowance and Family Tax Benefit increases proposed here).

Recommendation 6: Increase Allowance payments for single people by $50 per week

1. Allowance payments for single people (other than those on youth and student payments) should be increased by $50 per week from March 2015, and benchmarked to 66.3% of the combined married couple rate of Allowances (a higher rate in the case of sole parents) as is the case for pension payments. This applies to people on Newstart Allowance, Widow Allowance, Sickness Allowance, Special Benefit and Crisis Payment.

25 Rounded down – the actual increase would be $51.03.

2. Allowance payments for single people on youth and student payments (Austudy Payment, Abstudy Payment and Youth Allowance) who are either over 24 years of age or 18-24 years and living away from the parental home should also be increased by $50 per week from March 2015 and benchmarking of those payments to 66.3% of the married rate should be phased in.

Cost: $400 million ($1,800 million in 2015-2016)

Recommendation 7: Index Allowance payments annually to movements in earnings

From July 2014, Allowance payments for people aged 17 to Age Pension age, and those over pension age not eligible for an Age or Veteran's Pension, should be indexed annually to movements in wages as well as to movements in prices.

Cost: $300 million (600 million in 2015-16)

3.3 Family payments

Our family payment system performs two vital social and economic roles. It helps prevent child poverty (vertical equity) and it ensures that the tax-transfer system treats low and middle income families with children fairly by taking account of the costs of raising them (horizontal equity). In the absence of family payments, many more children would live in poverty and many families' lower capacity to pay income tax would be ignored. It is fairer and simpler to compensate low and middle income families for the direct costs of children through the social security system than through tax rebates and deductions, which are more complex for the recipients to claim and exclude those who are too poor to pay income tax. Therefore, we do not regard family payments for middle income families as an undesirable form of 'middle class welfare' but the case for extending cash payments or tax breaks for children to high income families is much weaker.

In recent years, the family payment system has strayed from these primary purposes. The introduction of the Baby Bonus and Schoolkids Bonus were poorly conceived and poorly targeted. Subsequent commitments to remove them missed the opportunity to reinvest funds in families in the greatest need.

The decision in the late 1980s to benchmark family payments for those on low incomes to the married rate of pension (and therefore to wage rate movements) reduced child poverty by about one-third. In 2009 this link to the pension and wage rate movements was removed, so that the Family Tax Benefit Part A payment for low income families is no longer keeping pace with improvements in community living standards. The inevitable result is that child poverty, as properly measured, will increase.

In our 'Back to Basics' publication ACOSS proposed reforms to the family payments system to reduce child poverty and improve and better target support to families.[26]

26 ACOSS (2013) *Back to basics, proposals to reform family payments.*

Recommendation 8: Improve the targeting of the family payments system and raise payments for families at greatest risk of poverty:

1. Restore the indexation of the maximum rate of Family Tax Benefit Part A to wage movements from 1 July 2014.

2. Increase the maximum rate of Family Tax Benefit Part B in respect of sole parent families with school age children, to the same rate that applies to the main carers of a child under 5 years (a $22 per week increase this year).

3. Reduce the Family Tax Benefit Part B 'free area' in the income test for the 'primary earner' from $150,000 to $100,000.

Cost: $300 million ($350 million in 2015-2016)

3.4 Retirement incomes

As our population ages, Governments will face a challenge to finance high quality, accessible health and aged care for a growing population of older people. It will become increasingly difficult for them to do so while less than 20% of individuals over 65 years pay income tax; and age-based pensions, supplements and associated concessions extend to people who arguably do not need them. The community faces a choice – whether to reduce public support for health and aged care (and rely more on user charges) or to better target aged based tax concessions and payments for older people so that their impact on the Federal Budget is more sustainable.

The Age Pension plays a vital role in protecting the incomes of low and middle income earners from a sharp decline after they retire. On the whole, it is well designed and cost effective in preventing poverty in old age, and is more tightly targeted than equivalent payments in most other wealthy nations. A key principle underpinning the design of the Age Pension is that social security support should not extend to people with relatively high incomes or income-yielding assets – around the top 20% of people of pension age. In recent years this principle has not been consistently applied. Age Pension entitlements and associated supplements and concessions have been extended to a cohort of older people who arguably do not need them. In 2006, the social security asset test was eased to such an extent that a home-owning couple with a million dollars in investment assets (other than their home) can now qualify for a part-pension. This entitles them to a range of pensioner concessions and supplements, even if their residual pension entitlement is only a few dollars a week.

In the medium term, consideration should be given to replacing the separate income and assets tests with a combined income test and extending the present 'deeming' arrangements. In this Budget, the assets test should be tightened to broadly restore the targeting regime that applied before 2006. To maintain incentives for older people to invest, our Budget proposal tightens the assets test without increasing the taper rate (the rate at which the pension is withdrawn above the 'free' area) to pre-2006 levels.

Individuals over 65 years who have assets that disqualify them under the pension rules can qualify for a Seniors Supplement of $850 per year ($650 if partnered) if their taxable incomes fall below $50,000 for singles, and $80,000 for couples. The original intent of the Seniors

Supplement and the former Seniors Concession Allowance (introduced in 2004) was to assist with basic living costs, but its recipients are likely to be in less need of public support than typical working-age households on similar incomes because many own their homes outright and have no dependent children. As many retirees on relatively high incomes draw their income mainly from superannuation which is non-taxable, they are eligible for the Supplement despite having incomes well above these thresholds. Recipients are also likely to have investment assets worth more than a million dollars (if partnered) and to fall within the top 20% of the retiree income distribution. We propose that the Seniors Supplement be abolished, which would not affect those entitled to an Age Pension (the vast majority of retirees) since they would still qualify for the equivalent Pension Supplement.

Tax breaks for superannuation are the most expensive 'tax expenditures', costing almost $40 billion a year, roughly the same as the Age Pension. The original intent of superannuation was to boost retirement incomes and reduce the cost to government of providing financial support to people after working age, by encouraging people to save for their own retirement. While modest tax support for retirement saving is desirable, the present superannuation concessions are poorly targeted and wasteful.

Employer contributions are taxed at a flat 15% instead of the individual's marginal tax rate. This is unfair because high earners save over 30 cents in tax per dollar contributed by employers, while those on incomes less than approximately $20,000 pay a higher rate of tax on their super than they would otherwise pay on their wages since they fall below the tax free threshold. The top 10% of male workers receive more from the government over their lifetimes in superannuation tax exemptions than they would receive if via the full Age Pension. The Treasury estimated that in 2012, 32% of the value of the concessions went to the top 10% of wage earners while the bottom 50% received just 19% of their total value.[27] This is inefficient as well as unfair because high income earners are much more likely to save for retirement in the absence of concessions than low or middle income earners.

The previous Government removed the 15% tax from employer superannuation contributions for individuals earning less than $37,000 by legislating a Low Income Superannuation Contribution of 15% of wages for individuals earnings less than $37,000. This was a welcome first step towards a fairer superannuation system, although even with the Low Income Contribution in place the tax concession for these individuals is zero, compared with over 30 cents per dollar contributed by the employer in the case of a high income earner. The present Government proposes to abolish the Low Income Contribution, which would have an adverse impact on the retirement incomes of people in low wage jobs, the majority of whom are women.

As a first step to improve the equity and target efficiency of superannuation tax concessions, we propose restoring the $25,000 annual cap on concessionally taxed superannuation contributions from July 2014, instead of progressively increasing it to $35,000 as currently budgeted. This would avert a sharp increase in the concessions available to people on high incomes, without reducing support for most low and middle income earners who are unable to contribute this amount in any event, since $25,000 is almost one-third of average fulltime earnings. Keeping the cap at $25,000 would also make more 'room' in future Budgets to increase the tax concessions for contributions made on behalf of low and middle income earners, a reform that could be prohibitively expensive if the cap is increased. The previous

27 Treasury (2013) *Op.Cit.*

Government legislated the above increase in the cap to partially compensate for the reversal of a previous proposal to raise it to $50,000 for individuals 50 years and over. The higher $35,000 cap applies to individuals over 59 years of age from 2013-14 and to those over 49 years from 2014-15, and would, under current policy settings, eventually extend to all fund members. A higher cap for people of mature age is inequitable and inefficient. This would mainly benefit high income earners, and is contrary to the main purpose of tax breaks for superannuation, which is to encourage long term saving rather than a 'catch up' in the years immediately before retirement.

In a future Budget, the present unfair and complex system of tax breaks for superannuation contributions should be replaced by a simple two-tier annual rebate set at 20% of contributions from all sources, up to a modest cap. Revenue-neutral proposals along these lines have been advocated by ACOSS in previous Budget submissions, and they are consistent with the superannuation reform proposals in the Henry Report.

The present tax concessions for superannuation contributions and fund earnings in the 'pension phase' are also unfair and unsustainable, the more so as the population ages. Two problems stand out. First, many superannuation fund members over 55 years of age are able to contribute to superannuation and withdraw a superannuation pension at the same time, as previous age-based restrictions on contributions have been eased and the tax on benefits was removed completely for those over 60 years of age. While it is desirable to give people the flexibility to ease their way into retirement, these arrangements are open to abuse. Individuals can salary sacrifice up the concessional contributions cap (currently $25,000 to $35,000), and pay themselves an equivalent pension. They can thereby avoid personal income on their earnings without saving at all, despite the fact that retirement saving is the purpose of tax breaks for superannuation. The 'churning' of wages through super accounts is being heavily promoted by super funds and financial advisers, jeopardising the personal income tax base as more people reach retirement age and make use of this strategy.

Currently, the earnings of superannuation funds are taxed at a rate of 15% (lower for capital gains) until the 'pensions phase' is reached (that is, once a pension is paid from the account), at which time fund earnings are tax free. This additional concession during the pensions phase may have been appropriate at a time when there a was a clear distinction between a 'contributions phase' (pre-retirement) and a 'pensions phase' (post-retirement) but as indicated above, the same individual can now contribute and be paid a superannuation pension at the same time. It is likely that remaining age-based limits on contributions will be removed in future, further blurring the distinction between these two 'phases'.

The Henry Report recommended that fund earnings be taxed at the same rate in both phases, though at less than 15%. Given the fiscal challenges facing this and future Governments as the population ages, and the fact that taxes on superannuation benefits have been abolished, there is a strong case for applying the standard 15% tax rate to fund earnings in both phases. This, along with our other proposals, would raise substantial revenue in future years to help finance health and aged care services. It would also improve equity in the tax treatment of different types of investment income received by people of different ages.

Recommendation 9: Tighten the social security assets test

Reduce the assets test free area for home owners to $100,000 for singles and $150,000 for couples, and increase the taper rate for both home owners and non-home owners from $1.50 per $1,000 of additional assets to $2 per $1,000.

Savings: $1,300 million ($1,400 million in 2015-16)

Recommendation 10: Abolish the Seniors Supplement

The Seniors Supplement should be abolished from 1 July 2014, leaving the equivalent Pensions Supplement in place for the vast majority of retirees who receive an Age or Veterans Pension.

Savings: $250 million (300 million in 2015-16)

Recommendation 11: Restore the $25,000 annual cap on concessionally taxed superannuation contributions after July 2014.

The annual cap on concessional superannuation contributions should remain at $25,000 for individuals under 59 years old and be reduced to that level from $35,000 for those aged over 58 years.

Revenue: $500 million in 2014-15 ($800 million in 2015-16)

Recommendation 12: Stem the avoidance of personal income tax by individuals over 55 years of age who 'churn' their earnings through superannuation accounts:

From 1 July 2015, reduce the annual cap for concessional contributions for every dollar withdrawn from a superannuation account in the same year by a fund member.

Revenue: $500 million in 2015-16

Recommendation 13: Extend the 15% tax rate on superannuation fund earnings to accounts in the 'pension phase', in three annual steps.

From 1 July 2015, the standard (generally 15%) tax rate for the earnings of superannuation funds should be progressively extended to fund earnings in the 'pension phase', in three annual steps of 5% each year.

Savings: $0 ($300 million in 2015-16)

4 Make essential services available and affordable

Australia is fortunate to have a range of essential services in place, from universal education and health services through to aged care and subsidised childcare. We are also fortunate that most people in Australia enjoy living standards better than ever before. According to data recently released by the National Centre for Social and Economic Modelling (NATSEM), in 2013 Australian households enjoyed a 65% increase in living standards compared with 1988, and 15% compared with 2008.[28] However, a small but growing group of people are simply unable to afford the essentials. In 2009-10, 45% of low-income households experienced at least three out of nine financial stressors compared to 8.8% of all households. 16.6% went without meal,s compared with 3.2% of all households; and 13.5% could not afford to heat their homes, compared with 1.9% of all households.[29]

We also face major challenges, both in meeting the growing costs of existing services such as health and aged care; and in filling major gaps in services needed, including education and early childhood services and services for people with a disability. The National Disability Insurance Scheme (NDIS) and schools funding are good examples of current reforms, which require long-term commitment and funding to ensure they achieve the purposes for which they were designed: to promote universal access to high quality services. All people living with a disability need real opportunities to live a productive, independent life: genuine job opportunities, adequate income and other supports as well. People with disabilities have waited too long for the essential supports they need. Building the NDIS will require long-term investment, and sustained commitment, with honest and transparent review. Funds already allocated to the implementation of the NDIS must be maintained and all relevant Government Departments must allocate resources to its national implementation strategy.

In this Budget, ACOSS urges the Federal Government to roll back poorly targeted subsidies, rebates and tax breaks which were intended to improve access and affordability to services, but which have resulted in inflating service costs, and which mostly benefit people on higher incomes. We need to ensure that government funds are well targeted to sustain vital essential services for those in need. We need to put the Budget on a sustainable footing. However, savings should not be achieved by removing essential services or cutting services for people who are already disadvantaged. This section recommends targeted spending and savings measures in health, services for people experiencing poverty and inequality, Aboriginal and Torres Strait Islander initiatives and community sector development.

4.1 Health

Health expenditure now makes up 16% of direct Federal Government expenditure[30] and 9.5% of GDP[31], making it the second largest area of government spending. According to The Grattan Institute, on current settings, combined Federal and State Government health spending is

28 Ben Phillips (2013) *Household Budget Report: Cost of living and standard of living indexes for Australia – June 2013*. NATSEM, University of Canberra. Available: http://www.natsem.canberra.edu.au/storage/NATSEM-Household-Budget-Report.pdf.

29 Phillips, B. and Nepel, B. 2012, *Going Without: Financial Hardship in Australia*. Report prepared for Anglicare Australia, Catholic Social Services Australia, The Salvation Army, UnitingCare Australia. NATSEM, University of Canberra. Available: http://www.natsem.canberra.edu.au/storage/2-Going%20Without%20MCP%20Report_Aug%202012.pdf.

30 Treasury (2013) *Budget 2013-14, Budget Paper No. 1*. Available: http://www.budget.gov.au/2013-14/content/bp1/html/bp1_bst6-01.htm

31 AIHW (2012) http://www.aihw.gov.au/WorkArea/DownloadAsset.aspx?id=60129544656

expected to increase by 2% in the next 10 years, as a proportion of GDP.[32] Over successive governments, a range of inequitable rebates and subsidies have been introduced which inflate health costs, benefit people on higher incomes and place an unsustainable pressure on the health Budget. These rebates and subsidies are no longer affordable. On the other hand, people in poverty and on low incomes face major cost barriers to getting even basic health services, such as going to the dentist.

Consumers in Australia also pay much higher prices for prescription medicines than those in comparable countries, particularly generic brands for out of patent prescription medicines. For example, wholesale prices for identical prescriptions medicines in Australia are now between six and 20 times higher than in New Zealand.[33] Australia has one of the most inequitable health systems in the developed world. According to World Vision, Australia is ranked 20th in terms of achieving inequitable health outcomes for our children behind countries including France (1), Denmark (2), Norway (3), Cuba (9), Belarus (15) and Tonga (16).[34]

Prevention is better than cure, both for people's health and wellbeing and for the alleviation of pressure on health budgets. There have been some important investments in addressing service gaps, including the Dental Health Reform Package, introduced by the former Government; and the Medicare Local and Partners in Recovery initiatives. The means testing of private health insurance was also a major step towards a more equitable health system. These measures must be preserved if we are to reduce the financial and social costs of preventable acute and chronic health conditions. We must also avoid quick fix funding solutions which will lead to longer term increases in cost. ACOSS strongly opposes the introduction of an upfront fee for GP visits. This would be a regressive step, creating an additional barrier for people on low and modest incomes to seek timely medical assistance. While it will raise revenue in the short term, it will only result in fewer people seeking assistance at an earlier stage, leading to more chronic health conditions, which are expensive to treat.

There are a number of other ways to make savings in the health Budget in order to place the system on a more sustainable footing. Spending on health must be restructured so that poorly targeted subsidies, which overwhelmingly benefit higher income earners, are removed. Key among these are the Extended Medicare Safety Net, which provides financial assistance for high costs for out-of-hospital medical services that attract a Medicare benefit; and the Private Health Insurance Rebate for ancillary cover. We also need more investment in local community-based primary health services to enable prevention and early intervention for groups particularly vulnerable to chronic health conditions over time. Community services can be an important partner in achieving improved health outcomes in communities, whether by brokering relationships; leveraging existing services; or sharing local knowledge of need and how best it can be met. Community services can also provide critical insights about the effectiveness or limits of health policy, based on their community knowledge. In essence, there is an untapped capacity in community services to support health outcomes, but they must be resourced adequately to do so.

Finally, we welcomed the Government's commitment to pursue legislative reform, to accelerate pricing procedures for out of patent prescription medicines, which will result in savings of

32 The Grattan Institute (2013a) http://grattan.edu.au/static/files/assets/ff6f7fe2/187_budget_pressures_report.pdf

33 The Grattan Institute (2013b) *Australia's bad drug deal* Available: http://grattan.edu.au/static/files/assets/5a6efeca/Australias_Bad_Drug_Deal_FINAL.pdf

34 World Vision International (2013) *The Killer Gap: A Global Index of Health Inequality for Children,* 7. The other countries making up the top 20 are Luxembourg, Finland, Germany Sweden, Slovenia, Switzerland, Czech Republic, Iceland, Belgium, Austria, Ireland, Canada, Japan, Oman and the Netherlands.

$385 million to both consumers and taxpayers from July 2014. However, with the current agreement between the Government and pharmaceutical companies due to expire in June 2014, now is the time to overhaul the pharmaceuticals pricing system, in order to deliver substantial additional reductions in the cost of prescription medicines in Australia. Such reforms include: increasing the percentage price cut pharmaceuticals companies are required to implement when medicines are out of patent from its current rate of 16% to at least 50% (Canada requires an 82% reduction); requiring that the 50% price reduction take effect as soon as medicines are out of patent; and establishing an independent Board to manage pharmaceutical pricing according to international price benchmarks and within a defined Budget.[35]

Recommendation 14: Abolish the Extended Medicare Safety Net

Medicare schedule fees should be increased where 'gap fees' are excessive.

Savings: $550 million ($600 million in 2015-16)

Recommendation 15: Remove the 30% Private Health Insurance Rebate for ancillary cover from 1 July 2015

This measure builds on reforms included in the 2013-14 Federal Budget, which introduced means testing for private health insurance rebates, and will further enhance the fairness and sustainability of Australia's health system.

Saving: $1,000 million in 2015-16

Recommendation 16: That the Government reduce subsidies for PBS listed medicines which are out of patent

Increase the percentage price cut pharmaceutical companies are required to effect when medicines are out of patent from the current rate of 16% to at least 50%, imposed as soon as a patent expires.

Saving: $1.3 billion ($1.3 billion in 2015-16)[36]

4.2 Education and early childhood services

A well-educated population is the key to Australia's economic and social wellbeing, now and into the future. However, significant numbers of children and young people, particularly from low-income households and disadvantaged communities, are not achieving the educational outcomes they could. Lack of education has long been recognised as a key factor in poverty and disadvantage. Those who are better educated are at less risk of poverty, while those living in poverty are less likely to achieve high quality educational outcomes. To ensure that every child in Australia has access to the best education, funding for the needs based school funding education reforms must be maintained, including through the out-years.

35 The Grattan Institute (2013b) *Op Cit*.

36 Stephen Duckett (2013) *Australia's bad drug deal: High pharmaceutical prices*, Grattan Institute.

Studies also show that access to high quality early childhood education and care plays a critical role in children's educational outcomes throughout formal schooling, including in areas such as school attendance, completion rates, behavioural outcomes in class and interest and motivation.[37] In addition, recent research conducted by Melbourne University found that children who attended preschool achieved markedly higher NAPLAN literacy and numeracy scores than those who did not.[38] Research from the United Kingdom demonstrates that these advantages continue through to better employment and wage outcomes at age 33.[39]

In addition to providing an important educational foundation for children, access to affordable, flexible care for children strengthens women's workforce participation.

However, such access is poor in Australia, particularly for low-income and single parent families. The current system of child care payments is particularly complex and inequitable. There are different payment types for low and higher income families and, by international standards, low levels of spending on child care overall. The Child Care Rebate is inherently regressive as it covers part of the gap fee between income-tested Child Care Benefit and fees charged. In addition, the level of subsidy available for low income families is generally not sufficient to finance quality care. As a matter of equity, funding should be directed to give most assistance to families that are in most need.

Pending the Productivity Commission Inquiry into Child Care, the CCR and CCB should be integrated into a single CCB without reducing overall expenditure. Families at all income levels would be entitled to a minimum level of the benefit, while low-income families would receive more.

Recommendation 17: Introduction of a universal minimum rate and increase the maximum rate of the Child Care Benefit.

The maximum rate of Child Care Benefit should be increased to better reflect the actual costs of providing quality care. This should be funded by the removal of the Child Care Rebate, which would then be replaced with a universal minimum rate of Child Care Benefit.

Cost: Revenue neutral

4.3 Services for people particularly affected by poverty and inequality

Community services are highly trusted by the Australian public and make a significant contribution to the nation's welfare. They provide essential services to a wide cross-section of the community, including some of the poorest and most socially isolated people in the country. Their effectiveness in securing positive social outcomes lies in long-term connections and locally-based relationships with the communities they serve, which provide an understanding both of the substance of local problems and how best to address them. These services and

---

37 Berlinski, S., Galliani, S. and Gertler, P. (2009) The effect of pre-primary education on primary school performance. *Journal of Public Economics*, 93(1-2), 219-234; Queensland Department of Education, Training and Employment (2013) *Evaluation of the Early Years Centre initiative – Summary Report.*

38 Warren,D. and Haisken-DeNew, John P. (2011) *Early Bird Catches the Worm: The Causal Impact of Pre-School Participation and Teacher Qualifications on Year 3 NAPLAN Cognitive Tests* MIAESR, University of Melbourne.

39 Goodman, A. and Sianesi, B. (2005) *Early Education and children's outcomes: How long do the impacts last?* Institute for Fiscal Studies.

programs are critical to community wellbeing and should not be compromised to restore a balanced Budget. At the same time, much greater savings can be made by implementing the recommendations made elsewhere in this submission, particularly in relation to inefficient and inequitable tax expenditures.

ACOSS strongly opposes recent decisions to reduce or remove altogether funding for a broad range of community services including legal assistance services, grant programs designed to build capacity within CALD communities, and policy advice on drug and alcohol services. We are particularly concerned that a number of these cuts have targeted the policy and advocacy capacity of peak bodies such as the Alcohol and Drug Council of Australia and the National Aboriginal and Torres Strait Islander Legal Services (NATSILS). These organisations make a vital contribution to national discussions about the structural reforms needed to improve social and economic outcomes for all people in Australia, nowhere more so than in the area of access to justice for Aboriginal and Torres Strait Islander communities. As such, while these decisions will have little impact on the Budget bottom line, they will have devastating impacts on people living with low incomes.

We are also concerned to ensure then that these early announcements are not a prelude to further cuts, particularly where current service contracts are due to expire in June 2014. An example of one such service area is financial counselling. Financial counsellors provide free, independent and confidential advice to people in financial difficulty, particularly in relation to credit, debt, money management and gambling issues. Currently 950 financial counsellors provide face-to-face and telephone services to between 80,000 and 100,000 people across Australia each year, 66% of whom earn annual incomes of $40,000 or under.[40] In 2013-14, financial counselling services received approximately $20 million in Commonwealth Government funding. In comparison, between 2005-06 and 2013-14, the implementation of Income Management has cost the Federal Government approximately $1 billion.[41] Given that the two programs have similar aims in terms of improving financial literacy and money management skills and that there is limited evidence that compulsory Income Management is achieving its aims, financial counselling services represent a cost effective, non-discriminatory and community-based alternative to supporting people experiencing financial difficulties in Australia.

In the face of funding decisions that have been either announced or the subject of speculation, we recommend maintaining funding for programs that are vital to the needs of people living on low incomes, experiencing poverty and inequality, and preventing community breakdown. The programs included in the following recommendations are not an exhaustive list of programs or services supported by ACOSS, but are indicative of our key recommendation that essential community services for low-income, disadvantaged and socially excluded groups not be targeted to achieve a balanced Budget.

40 Financial Counselling Australia (no date) *Financial Counselling in a Nutshell.* Available: http://www.financialcounsellingaustralia.org.au/getattachment/Corporate/Publications/financial-counselling-infographic.pdf.

41 Buckmaster L, Ey C & Klapdor, M (2012) *Income Management: An Overview, Background Note.* Parliament of Australia, Department of Parliamentary Services: Canberra.

Recommendation 18: Reverse plans to cut existing programs which promote access to justice and social inclusion

This includes, but is not limited to:

+ Funding for Aboriginal and Torres Strait Islander Legal Services, Family Violence Prevention and Legal Services, Community Legal Centres and Legal Aid Commissions.

Cost: $6.5 million ($16.3 million in 2015-16)

+ Funding for the Building Multicultural Communities Fund and the Multicultural Communities Employment Fund.

Cost: $17.2 million ($20.6 million in 2015-16)

4.4 Aboriginal and Torres Strait Islander Programs

Aboriginal and Torres Strait Islander people are among the most resilient yet in many cases disadvantaged members of the Australian community. For example, despite some improvements in the life expectancy gap over recent decades, in 2010-12 Aboriginal and Torres Strait Islander men lived 10.6 fewer years than non-Aboriginal and Torres Strait Islander men, while Aboriginal and Torres Strait Islander women lived 9.5 fewer years.[42] More worryingly, rates of Aboriginal and Torres Strait Islander incarceration continue to rise: the proportion of prisoners that are Aboriginal and Torres Strait Islanders has almost doubled from 14% in 1991 to 26% in 2011.[43]

Not one dollar should be removed from the overall investment in Aboriginal and Torres Strait Islander initiatives, purely in order to make savings in the federal budget. To suggest that Aboriginal and Torres Strait Islander peoples should share the burden of putting the Budget on a sustainable footing ignores the fact that Aboriginal and Torres Strait Islander communities hold the least wealth of any Australian households. Australian Bureau of Statistics (ABS) data shows that while gross household income for Aboriginal and Torres Strait Islander people increased between 2004-5 and 2008, it remained approximately 61% of the corresponding figure for non-Aboriginal and Torres Strait Islander people.[44] Similarly, a significant proportion of Aboriginal and Torres Strait Islander households experience financial stress. In 2008, 47% of Aboriginal and Torres Strait Islander people aged 15 and over lived in households unable to raise $2000 in an emergency, compared with just 13% of non-Aboriginal and Torres Strait Islander households.[45]

Addressing the shocking over-representation of Aboriginal and Torres Strait Islander people in the justice system should be one of the Federal Government's most pressing priorities. The

42 Australian Bureau of Statistics (2013) *Life Expectancy Fact Sheet* Available: http://www.ausstats.abs.gov.au/Ausstats/subscriber.nsf/0/412AB412E190136FCA257C230011CA6F/$File/ABS%20Life%20Expectancy%20Fact%20Sheet.pdf.

43 Lyneham M and Chan A (2013) *Deaths in Custody in Australia to 20 June 2011, monitoring report no. 20* Australian Institute of Criminology. Available: http://www.aic.gov.au/publications/current%20series/mr/1-20/20.html.

44 Australian Bureau of Statistics (2010) *Measure of Australia's Progress* Available: http://www.abs.gov.au/ausstats/abs@.nsf/2f762f95845417aeca25706c00834efa/f5bdb42a320fb82bca25779e001c484b!OpenDocument.

45 Australian Bureau of Statistics (2009) *National ATSI Social Survey 2008* Available: http://abs.gov.au/AUSSTATS/abs@.nsf/Latestproducts/4714.0Main%20Features112008?opendocument&tabname=Summary&prodno=4714.0&issue=2008&num=&view.

consequent social and economic cost to Aboriginal and Torres Strait Islander communities only results in subsequent generations of Aboriginal and Torres Strait Islander peoples being caught in the cycle of disadvantage. The fiscal cost to the justice system, resulting in an unsustainable rise in expenditure in this area, should also encourage the Federal Government to take action to address this situation. Delivering services in communities, Aboriginal and Torres Strait Islander Legal Services (ATSILS) and Family Violence Prevention and Legal Services (FVPLS) are the only organisations with the access, ability and expertise to obtain the necessary information that is critical to all governments to design effective and evidenced base policy solutions in the justice sector. Without this knowledge, the alarming levels of Aboriginal and Torres Strait Islander over-representation in the justice system cannot be addressed. Cutting funding to legal services will result in less community legal education, prevention and legal assistance; more people coming into contact with the formal justice system and higher imprisonment rates; at a vastly higher social and economic cost than the savings made by cutting services.

ACOSS is opposed to any immediate cuts being made to specific Aboriginal and Torres Strait Islander initiatives. We oppose recent announcements about plans to reduce funding to FVPLS; ATSILS and NATSILS, an ACOSS member and vital community leader; and to the National Congress of Australia's First Peoples, with whom ACOSS has a strong relationship through a Memorandum of Understanding. We also urge the Commonwealth to support the ongoing funding of these important mechanisms for Aboriginal and Torres Strait Islander leadership.

ACOSS agrees that every dollar needs to be invested well, based on community driven decision-making and evidence of success. For this reason, ACOSS urges the Federal Government to repeal compulsory Income Management. Evaluations to date have failed to show any significant positive outcomes from compulsory Income Management. For example, the 2012 review conducted by Bray et. al. concluded that, given the limited evidence available that Income Management is effective in building money management capacity or promoting 'socially responsible behaviour, early indications are that it 'operates more as a control or protective mechanism than as an intervention which increases capabilities.' [46]

Recommendation 19: Continued funding of the National Congress of Australia's First Peoples

Cost: nil ($5 million per annum currently allocated for 2014-15 to 2016-17)

4.5 Community sector development

The not-for-profit sector makes up around 5% of GDP and over 8% of employment in Australia[47]. Community services and charities make up the economically significant part of the broader not for profit (NFP) sector. They also reflect an area that routinely shows projected growth in demand over coming decades, another clear indicator of the sector's economic as

46 Bray, Gray, Hand, Bradbury, Eastman & Katz (2012) *Evaluating New Income Management in the Northern Territory: First Evaluation Report – July 2012.*

47 Productivity Commission (2010) *Study into the contribution of the not-for-profit sector.*

well as social value. Yet the sector continues to lag behind others in terms of industry planning, funding and integration with major economic and social debates. Indeed this sector is rarely conceived of as an industry at all, relegating it further away from the policy and funding processes that ought to be prioritising its sustainability and effectiveness.

The lack of a developed workforce strategy that maps program areas and population needs and identifies training and other barriers to the sector's capacity shows how far the community sector is lagging in terms of industry development. National planning and coordination is required to develop reliable projections about the growth in demand for community services; and to develop an industry plan that will produce the skilled workforce necessary to meet demand into the future. The development of the community sector is in the national interest and should be a priority given its social and economic value. We recommend the development of a community services industry development plan through $20 million in seed funding for the first year, increased incrementally over the forward estimates, bringing the funding for the Plan to $150 million within 5 years.

The community sector is also largely overlooked in the national approach to climate change adaptation and extreme weather preparedness. ACOSS commends the recognition of the community sector's critical role in the Federal Government's *National Strategy for Disaster Resilience* and welcomes the current focus on vulnerable communities and their support networks (including the community sector) in the *Climate Adaptation Outlook.* However, the ongoing failure to adequately resource the community sector to prepare for climate change and extreme weather impacts is of serious concern because the people it supports will be first and worst affected by climate change.

Research conducted by ACOSS in 2013 found that despite the sector's recognised role in supporting community resilience and adaptive capacity, its organisations are extremely vulnerable to climate impacts with 25% at risk of permanent closure due to an extreme events. However the research also had a positive story to tell: that with the right skills and resources, the sector has both the capacity and willingness to make an unparalleled contribution to climate adaptation across the community.

To ensure the sector's long-term sustainability and effectiveness in response to both climate extremes and incremental changes as climate change accelerates, we recommend the creation of a Community Adaptation Fund. The fund should provide $50 million over five years to support sector-specific capacity building projects, such as risk management and business continuity planning, training programs, infrastructure upgrades and retrofits, and benchmarking to assess the progress of individual organisations and the sector as a whole towards greater resiliance. To ensure the best results, the fund should operate as a cross-government initiative, drawing on the policy expertise of the Attorney General's Department, the Department of Health and Ageing and the Department of Environment, Water and Heritage, as well as the line agency expertise of the Departments of Human and Social Services. The operation, effectiveness and future prospects of the fund should be reviewed after 5 years.

Finally, ACOSS continues to regard government policy settings as critical to the development of an effective community sector. The lack of a national regulatory environment has undermined the significant role, both social and economic, played by charities and non-profits in Australia in the past. We reassert our long-standing support for the Productivity Commission's recommendation for a national charities regulator, recognising that the current framework of differing approaches across states, territories and the Commonwealth results in overly but ineffectively regulated charities. We also reaffirm our previous policy recognising the important but separate roles of national regulation of charities and that of a centre dedicated to excellence in the community sector, recognising that these are distinct, albeit potentially complementary, functions.

Improving the contracting of community services is another critical priority for reform. Great inroads have been made in some areas, particularly in those Departments that have moved from one year to three-year contracts for funded services; and there are some examples of good practice in terms of negotiation and adequacy in Commonwealth Government contracts with community services. But on the whole, this landscape continues to be dominated by uncertainty as to when and if contracts will be re-negotiated; who will be funded; and inadequacy in terms of meeting the full costs of delivering funded services. Beyond base levels of funding, the failure to pay adequate and predictable rates of indexation has also resulted in the erosion of government funding for community services over many years.

Recommendation 20: The purpose of the plan is to provide an integrated, nationally coordinated framework to identify and meet the demands on community services now and into the future

Cost: $20 million in 2014-15 ($30 million in 2015-16)

Recommendation 21:Establish a Community Sector Climate Adaptation Fund

The purpose of the fund is to capacity building projects for community services to prepare for and adapt to direct and indirect climate change risks, including extreme weather events and natural disasters.

Cost: $10 million in 2014-15 ($10 million in 2015-16

)

Recommendation 22: Ensure that community servics funding includes adequate price inflation

A standard rate of indexation applied to Commonwealth contracts with the not-for-profit social service sector will go towards the consistent and adequate funding of community services.

Cost: $348 million in 2014-15 ($360 million in 2015-16)[48]

Recommendation 23: That the Government commit to maintaining a national regulatory environment for charities and non-profit organisations in Australia.

Cost: nil additional cost on forecasts (Continuation of the $14.4 million committed in 2014-15 and $12.9 million in 2015-16)[49]

48 This figure is based on data from several key cost areas: the Child Care Benefit, the Child Care Tax Rebate, DoHA Residential Care funding, DEEWR Job Network and other employment program funding, and the Disability and HACC SPPs and indexed to the wage price index.

49 Treasury (2013) *Portfolio Budget Statements 2013-14,* Commonwealth of Australia. Available: http://www.treasury.gov.au/~/media/Treasury/Publications%20and%20Media/Publications/2013/PBS%202013-14/Downloads/PDF/07_ATO.ashx.

5 Improve access to affordable housing

Despite significant policy and funding commitments to improve the availability of affordable housing and reduce homelessness in recent years, Australia is facing a housing affordability crisis. High housing costs are the biggest source of financial stress in many households, particularly those on low incomes. Decades of rent and mortgage increases above the rate of inflation have left more than a million people on low incomes experiencing housing stress, with housing costs exceeding 30% of household income.[50] The majority of those in housing stress are in private rental, with 60% of people on low incomes who are in private rental experience housing stress, and 25% spending over half of their income on rent.[51]

Housing markets are complex and the solutions are not simple, but the Commonwealth Government wields key policy levers that impact on the availability of affordable housing, not least through the tax system. ACOSS advocates a comprehensive affordable housing strategy which includes reform of housing taxation; direct investment in the growth of affordable housing stock and incentives for private sector and institutional investment in affordable housing; an increase in financial support to low income renters; and sustained support for homelessness services.

5.1 Reform housing taxation

Tax concessions for housing purposes are, at least in theory, designed to improve housing affordability. In practice they often have the opposite effect. They often inflate home prices and rents by encouraging over-investment in existing housing stock.

Analysis by the Australian Housing and Urban Research Institute (AHURI) suggests that total tax expenditures for owner occupied housing totalled $45 billion and investor housing totalled $8.3 billion in 2006.

While deductions for investment expenses are a well-established and legitimate feature of the income tax system, deductions for 'negatively geared' investments in assets that yield capital gains (including property, shares and collectables) are not properly matched (in timing or in value) with the related income stream. Taxpayers receive immediate deductions at their current marginal tax rate against future income that mainly takes the form of capital gains and is taxed at only half their normal marginal rate. As the Henry Report noted, this mismatch distorts investment decisions and can be exploited for tax avoidance purposes.

The tax benefits of 'negative gearing' are heavily skewed, providing ten and a half times the benefits to the top 20% of households (around $3,800 a year) than they do to the lowest 20% (around $364 a year).[52] Moreover, over 90% of investment in negatively geared housing stock applies to existing properties, thereby inflating housing costs and fuelling speculative booms in the housing market. This tax concession also skews investment in housing towards individual investors (rather than institutions) and towards investments yielding capital gains (rather than a stable rental income stream).

50 Ryanti Miarant and Binod Nepal (2008) *Housing Stress in Australia 2007* National Centre for Social and Economic Modelling, University of Canberra.

51 National Housing Supply Council (2012) *Housing supply and affordability, key indicators, 2012* Commonwealth Government of Australia, Canberra.

52 Yates, J. (2009) *Tax expenditures and housing* Australian Housing and Urban Research Institute, Melbourne.

Deductions for expenses relating to passive investment in housing, shares, collectables and similar assets purchased after 1 January 2015 should be quarantined to offset income received from those assets, including capital gains realised on their subsequent sale. This is a first step to improving housing market outcomes and reducing the fiscal and social cost of this tax break. The proposed policy change would have a gradual impact on housing investment, as it would not apply to assets purchased before Budget night 2014. Further, we recommend that half of the revenue savings be earmarked for the introduction of an Affordable Housing Growth Fund and proposed expansion of the NRAS in order to promote fresh investment in affordable housing to help ease the affordable housing shortage.

5.2 Grow affordable housing stock, including through private sector investment

To ensure the financial viability of low-rent housing, the Government should establish an Affordable Housing Growth Fund to increase the supply of affordable housing, through direct government investment. It should also ensure that current funding under the National Affordable Housing Agreement is indexed appropriately to ensure future adequacy.

The Government should also encourage private sector and institutional investment in affordable housing stock, by maintaining and expanding the NRAS into the future and exploring other innovative models to leverage private investment (e.g. housing bonds). From 2009, when the first NRAS properties were delivered, up until June 2013, 14,575 low-rent properties have been completed, with over 38,000 projected to be delivered by April 2017.[53] The program has been consistently and dramatically over-subscribed, with high demand from potential investors. While the program is funded through to 2015-15, investors are looking for certainly from Government now about the future of NRAS and a clear commitment is needed to maintain and expand the program beyond the forward estimates.

As noted above, the costs of this investment should be offset by the savings generated through reform of negative gearing.

5.3 Increase financial assistance to low income renters

CRA provides important assistance to low-income residents of private housing markets but has failed to keep pace with steep rental inflation, leaving many struggling to cope with high private rental costs. CRA should be increased to provide immediate relief to renters on low incomes, pending a review of the adequacy, indexation and impacts of CRA on housing sub-markets.

5.4 Maintain the level of funding to homelessness services

Notwithstanding recent investment and policy innovation, homelessness remains a serious social problem in Australia. Additional investment in homelessness services under the

53 Department of Social Services (2013) *NRAS monthly performance report – June 2013* Australian Government, Canberra.

previous Government achieved a reduction in the number of rough sleepers, but with a growth in the number of people living in overcrowded dwellings, overall homelessness figures have remained the same. Further, an increasing number of older Australians are experiencing homelessness.[54]

The Transitional National Partnership Agreement on Homelessness (NPAH) is due to expire after June 2014. The lack of certainty around the NPAH is putting pressure on homelessness services' ability to plan for coming years and to reduce the instance and severity of homelessness. Unless the Commonwealth commits (at a minimum) to maintaining the current level of funding for homelessness services, we risk going backwards in our national efforts to end homelessness.

Recommendation 24: Quarantine deductions for expenses relating to passive investments

Quarantine deductions for expenses relating to passive investment in housing, shares, collectables and similar assets purchased after 1 January 2015 to offset income received from those assets, including capital gains realised on their subsequent sale.

Earmark half the revenue savings for the proposed expansion of the NRAS program and Affordable Housing Growth Fund.

Revenue: $500 million ($1,000 million in 2015-16)

Recommendation 25: Establish a long term Affordable Housing Growth Fund

An Affordable Housing Growth Fund should be established with a commitment of $750 million in the first year, growing to $6,000 million over 5 years. This funding should be strictly designated for expanding the stock of affordable housing.

Program guidelines should enable housing providers to draw on a range of Affordable Housing Programs to deliver maximum affordability and provide mixed tenure developments.

Cost: $750 million in 2014-15 ($900 million in 2015-2016)

Recommendation 26: Review Commonwealth Rent Assistance and increase the maximum rate of CRA

CRA should be reviewed to ensure that it best meets the needs of people who are on low incomes. As a first step, the maximum rate of CRA should be increased from 1 June 2014 by 30% (approximately $19 per week) for low income households currently receiving the highest rate of CRA.

Cost: $880 million in 2014-15 ($920 million in 2015-16)[55]

54 *Submission to Inquiry into the opportunities for participation of Victorian seniors* (2011) Council to Homeless Persons.

55 Calculated on the basis of the number of current recipients multiplied by the increase, and indexed to CPI, estimated at 2.5%.

Recommendation 27: Maintain current funding for homelessness services and index to CPI

That the Commonwealth commit to maintain the level of funding currently provided under the NPAH, to be indexed to the CPI or the Wage Price Index, whichever is higher.

Cost: $160 million in 2014-15 ($170 million in 2015-16)[56]

Recommendation 28: Improve the adequacy of National Affordable Housing Agreement (NAHA) indexation

That funds allocated under the NAHA be indexed to the level of the CPI on an ongoing basis.

Cost: $20 million 2014-15 ($30 million 2015-16)[57]

56 This calculation is based on the funding for 2013-14 under the transitional agreement, indexed to CPI at 2.5%.

57 This calculation is based on the difference between 2013-14 budget projections and CPI indexation, estimated at 2.5%.

6 Strengthen engagement with civil society in the Budget policy process

The quality of our democracy and public policy depends upon effective engagement between governments and civil society through organisations, social and environmental policy experts and the broader Australian public.

The Government has indicated that the community should expect the 2014-15 Budget to effect some significant policy and funding changes. It has also indicated that these changes will be informed by the recommendations of the Commission of Audit, which is due to report to Government in January and March.

ACOSS has supported the need for a Federal review of expenditure to ensure that resources are targeted effectively, efficiently and fairly; and has engaged constructively with the Commission of Audit. In our submission to the Commission of Audit, we made a number of recommendations about the process of engagement during and following the Inquiry, including that Government engagement with civil society in its deliberations on key Commission of Audit recommendations. ACOSS recommended that the Commission of Audit:

+ Release an early issues paper outlining problems to be resolved and the Commission's purpose and approach to reform;
+ Promptly release submissions online;
+ Commission and publish statistical reports on Budget programs and trends, including on expenditure to GDP trends for different direct and tax expenditure programs; and information on who benefits from major programs (including distributional analysis where possible); and
+ Prepare both phases of its report prior to the Budget.

We have also called on the Federal Government to publish the Commission of Audit reports in enough time for stakeholders to respond within the Budget cycle. The Government should consult with civil society and community organisations before making decisions which are likely to impact on low income or disadvantaged people or the services that they rely on. We also urge the Government to establish an effective mechanism for community, business and labour organisations to engage in a structured dialogue and seek to develop solutions to the major social and economic policy challenges we face as a nation.

ACOSS' Commission of Audit submission also warned the Federal Government against pre-empting its forthcoming policy reviews on taxation and federalism by frontloading reform in its first Budget. These processes will provide an important opportunity for comprehensive review and broad engagement with community organisation and other experts. Major decisions to reform taxation or Federal/State relationships should be informed by these processes.

We note that Pre-Budget Submissions have not previously been published, and call for the Government to review this practice to improve the transparency of the Budget decision-making process, and facilitate informed community debate about Government spending priorities.

acoss